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April 13, 2001

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The Honorable Frank Murkowski
United States Senate
322 Hart Building
Washington, DC 20510-0202

Dear Senator Murkowski:

Over the past few years you have worked hard with Senator Stevens and Representative Young to ensure Alaska receives its fair share of federal reimbursement for the Medicaid program. The Balanced Budget Act increased Alaska's Federal Matching Assistance Percentage (FMAP) for three years and the Benefits Improvement and Protection Act made additional positive changes last year.

Unfortunately, a change in the calculation of per capita income implemented by the Bureau of Economic Analysis (BEA) at the end of FY 2000 has significantly mitigated these hard won FMAP increases. This methodology change, which affects Alaska's FMAP more than the FMAP of any other state, will reduce the current Alaska FMAP by nearly 3 percent in FY 02. This FMAP decrease will require the state to expend an additional \$12 million in general funds next year to maintain the same level of program coverage.

The conditions which justified Alaska's higher FMAP have not changed. Health care costs in Alaska are simply higher than in other states. The BEA change that caused Alaska's FMAP to fall was entirely technical, based on the contribution that retirement accounts make to a state's per capita income. It does not reflect a real change in income, but rather a statistical adjustment in what is counted as income for certain purposes.

This decrease in the FMAP was both sudden and dramatic. It unexpectedly reverses the trend of recent years under which Alaska's FMAP had been rising as our state's per capita income fell in relation to the nation as a whole. By historical standards, annual fluctuations of more than a percentage point are relatively rare. And, as noted, this BEA change hit Alaska harder than any other state.


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Senator Murkowski, it is always difficult to absorb a reduction in federal funding for a program of the size and importance of Medicaid, but Alaska would have serious trouble absorbing this FMAP reduction in one year. Needless to say, the state spending plans did not anticipate having to replace these lost federal funds. Nor do we believe the state should have to adjust its Medicaid coverage or reimbursement to accommodate these lost funds.

Therefore, we respectfully ask for your help in mitigating this FMAP reduction by enacting changes that would assure that any state's FMAP cannot drop more than 1 percent in one year. This would reasonably mitigate the disruption to fiscal planning and health care services that will otherwise be caused by these changes. We also request that this 1 percent limit be applied to the Alaska reduction. We would be glad to work with you on a specific legislative proposal to accomplish this.

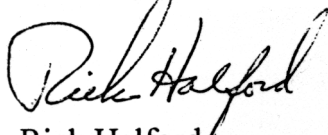
We know that it is a challenge to convince your colleagues of the special circumstances that affect Alaska. We appreciate your continuing efforts to ensure Alaska receives fair treatment in federal funding for the Medicaid program. Thank you again for all you have done for the health care of Alaskans.

Sincerely,



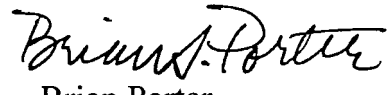
Tony Knowles
Governor

Sincerely,



Rick Halford
President of the Senate

Sincerely,



Brian Porter
Speaker of the House